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Early Parliamentary After the Presidential Election?

The political scene in Serbia will reach its peak at the presidential election that is called for September 29, 2002. According to all opinion polls, the key contenders will be Vojislav Kostunica and Miroljub Labus, who have ranked as the most popular among citizens for a long time. According to the opinion poll carried out by Medium Gallup International in June, Kostunica had support of 25% and Labus of 18%. At the end of June, Strategic Marketing published that each of these candidates had the support of 22%. In another poll, done by the Center for Policy Research in July, the order of the two candidates was reversed: Labus enjoyed the support of 20% of voters, while Kostunica had 18%. Other candidates for presidential elections (Seselj, Zivojinovic, Ilic, Draskovic, Pelevic, etc.) will not contend to win at this election, but only to enhance their public presence.

Economic and social issues will prevail in this electoral campaign. According to the mentioned poll carried out by the Center for Policy Research, 42% of citizens see their life as hardly bearable, while 32% assess their situation as bearable. Citizens also assess the socio-economic performance of the Serbian Government as poor. Only 11% of them are content with macro-political efficiency of the Government, while as much as 64% are not satisfied. Nevertheless, citizens are still optimistic: as many as 45% of them believe the next year will be better than this year, while 29% expect the year 2003 to be even worse. It could be safely assumed that socio-economic problems will be dominant in this campaign, and the candidate who is able to convince citizens that they matter and that he has better solutions for these problems is more likely to win.

The two main candidates agree that economic issues are the most important in Serbia today. Labus puts main emphasis on economic and social issues, and on integration with the European Union. He advocates more employment opportunities, starting up new businesses, the recovery of construction, modernization of infrastructure, improvements in the areas of health care and education, and integration of Serbia into the European Union. Kostunica puts main emphasis on similar issues, offering similar solutions. He is dissatisfied with the privatization process though. Nevertheless, it is hardly possible that either of the candidates has something to say essentially different with regard to social and economic issues. It is therefore clear that in this area Labus will get the upper hand as a person who is an expert on the economy. That is why Kostunica has been trying to broaden the campaign agenda by imposing issues such as new constitution, parliamentarism, and the rule of law.

Although Labus and Kostunica are the most likely winners at this election, this does not mean that the presence of others and the results they are able to score are not important. According to the mentioned poll, Pelevic has the support of 5.2% voters, Seselj 3.7%, Ilic 4.5%, and the candidate of the Socialist Party 5.2%, while according to the July poll, Seselj had 5%, Pelevic 4% and Ilic and Milosevic 3% each. To grasp the significance of these digits, it is necessary to remember that similar support for Labus and Kostunica suggests that none of them can hope for victory in the first round. The decision will consequently be made in the second round. Since the candidates who together garnered 15-20% of votes will not take part in the run-off, the majority of these votes will have to be distributed between Kostunica and Labus. The one who succeeds in attracting this majority will win at the presidential election on September 29.

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The September presidential elections will have significant implications on the restructuring of the political scene in Serbia. The reason for this is the current regrouping of the DAN coalition within the DOS coalition. This coalition, composed of the Democratic Alternative, New Democracy and the Democratic Center abstained from backing Miroljub Labus on August 17, when DOS announced its support for him. This was followed by the announcement of possible presidential candidacy of Dragoljub Micunovic in the name of the DAN coalition, while in the last week of August this coalition announced its disagreement with the content of constitutional charter that was agreed on by the governments of Serbia and Montenegro, as well as that, in case that Kostunica and Labus enter the second round of the presidential election, this coalition might give its support to Vojislav Kostunica.

The departure from the DOS policy implies that the DAN coalition is ready to leave DOS and switch to Vojislav Kostunica's camp if it estimates that he will beat Labus in the September elections. This change in course is not transparent at this moment, because it is not clear yet if Kostunica is a sure winner. Anyhow, the most important implication of the DAN strategy is that if Vojislav Kostunica wins in the presidential election, it will seem impossible to prevent the disintegration of what remains of the DOS coalition. The breakup of DOS will inevitably result in the dissolution of the parliamentary majority that supports the Djindjic Government; this will be followed by the fall of the Serbian Government and, finally, by an early parliamentary election.

Here two different scenarios with an identical outcome seem to be likely. The first is that the Government simply falls. In this case, Djindjic could salvage himself by making a coalition with someone from the current opposition. But forming a coalition with the Radicals or the Socialists would most likely incite opposition within the expert part of the government. This is why the second scenario—by

which the Prime Minister himself, after realizing that he does not enjoy support in the Parliament, calls for the president of the republic to dismiss the National Assembly—is more likely. In both cases early parliamentary elections are unavoidable and might be called for late 2002 or early 2003. Of course, this scenario is less likely if Miroljub Labus wins the elections. In that case, the DAN coalition will probably stay in the DOS, thus continuing to ensure the necessary majority to the Serbian Government in Parliament. But early elections will still not be improbable, although for different reasons, and most probably they will not happen in the near future.

Fourteen Months After the Donors' Conference

In May 2001 the impact of the postponement of donors' conference on economic recovery was analyzed. Now, from a distance of almost one and a half year, it is possible to discuss real effects of the donors' conference on economic activities in the country.

First of all, it was shown that the donors' conference requires at least six months for its effects to come about; no impact should be expected only three months after the conference. Namely, it takes at least three months for payments to be made and the money used, and additional three months to start the production cycle with the necessary purchases of equipment and raw materials from abroad.

The following chart shows the dynamics of the inflow of donations in the course of year 2001.

CHART

Inflow Of Donors' Assets In US\$ Millions

- *pressure for the extradition of Milosevic*

Right before the donors' conference was held, our economy had entered a recession due to the lack of assets expected from donors. This period coincided with the beginning of fiscal reforms in Serbia. Namely, after having introduced financial discipline, it was necessary to introduce fiscal discipline as well, in order to complete the process of macroeconomic stabilization. The introduction of fiscal discipline, however, coupled with numerous other problems encountered by the Serbian economy at that time, had a negative impact on the overall economic activity. In our opinion, this resulted from a long lasting practice of "soft budgetary limitations" in the provision of lacking assets for the economy, which should have been stopped. The positive impact of fiscal reform referred to the increase in public revenues which enabled regular payments of pensions and coverage of other public expenditures. More significant downside effects of the fiscal reform on economic trends were registered in June 2001, when the reduction of activities in particular areas started (Chart 2).

CHART

De-seasonal Index Of Industrial Production And Effective Hours Of Work In Construction (average 2001 = 100)

- *establishment of macroeconomic stability*
- *recovery*
- *industrial production*
- *contraction*

The inflow of assets increased again after the donors' conference, reaching its peak in October 2001. This gave strong incentive to the initiation of a positive cycle in the economy. The beginning of 2002 marked a significant shift toward more dynamic economic activity. In the ensuing months of 2002 the expected recovery was realized.

However, indicators of economic activity should be taken with reservation since the statistics do not cover the major part of the private sector.

In this article we will analyze only two sectors - industrial production and construction, for a very simple reason – these two activities have not sustained any changes in statistical coverage, because the private sector is not yet monitored on a monthly basis, whereas there are strong indications that the volume of activities in that sector is constantly increasing. This is indirectly implied by the real growth of the money supply and real public revenues. At the same time, this indicates an increased level of “legal” activity within overall economic activity.

In the de-seasonal series of industrial production, recovery after the October changes reached its peak in June 2001, when the index amounted to 103.7 (average 2001 = 100). The seven-month recession ended, as we mentioned earlier, in January 2002, when the de-seasonal index (with the same basis) amounted to 95.2. The average monthly rate of de-seasonal decrease of industrial production in the period June 2001 – January 2002 averaged 1.21%.

The “bottom” in January was followed by fast recovery at a rate of 1.3% per month in de-seasonal series, and thus the index of 103.8 was reached in June (average 2001 – 100). After six months of negative year-to-year growth rates, the period January – July 2002 recorded an increase in industrial production by 0.2% compared to the same period during the previous year. Production in July increased by 6.2% compared to the same months the previous year, whereas manufacturing, excluding production of electricity, registered considerable growth of 10%. The average monthly growth rate of 1.3% in de-seasonal series leads to the annual growth of 15.6%. With regard to such recovery trends, industrial production in Serbia seems more likely to reach the projected level of 3% compared to 2001, while the projection of a 2% growth rate in industrial production in Serbia released by the G 17 Institute Economic Review from June 2002 seems quite certain.

It is important that these positive trends can be disrupted by negative political shocks. If the established trends were not disrupted, in 2003 Serbia would reach a two-figure growth rate in industrial production, which would be much higher in the private sector.

CHART

Export in US\$ millions

A direct effect of industrial production recovery, coupled with the successful agricultural year of 2001, resulted in a very fast recovery of exports. Exports have been showing a notable recovery trend since September 2001, when exports of food industry products started to increase considerably. Since January 2001, almost all industries have registered high export growth.

CHART

Indices Of Export Value (the same month of the previous year = 100)

Exports in the Republic of Serbia have very high growth rates; in July 2002 they increased by as much as 36.6% (before usual subsequent corrections that will increase this rate to almost 50%) compared to July 2001. Fictitious exports (overhauls of airplanes

in foreign countries entered as exports) resulted in a very high value in March 2001, which is confusing for clear identification of positive trends. More intensive criticism of the exchange rate policy two times resulted from this unreal high value: (1) in April and May 2001, when high negative rates were registered relative to March; (2) in March this year, when a year-to-year decrease was recorded despite absolutely high value of realized export.

Another economic activity which followed the trends in industrial production was construction. Construction activity in the socially-owned sector recorded a considerable drop last year. Fast recovery in de-seasonal series, however, does not indicate that a positive growth rate will be achieved this year. But it is important to stress that construction is a specific activity due to a very large share of the private sector, which is not covered statistically.

Consequently, the dynamics of construction works is underestimated in terms of statistics. It serves here as confirmation of the positive effects of the donors' conference and fast recovery of construction activity. Namely, every citizen of the Republic of Serbia (except those who live in remote rural areas and who have no access to TV and hence are not familiar with the situation in other fields) can see that public construction is increasingly intensive: the reconstruction of Belgrade – Nis motorway and other roads, revitalization of infrastructure in towns, etc. These are direct consequences of the inflow of assets from the donors' conference which was held in June 2001 and of the loans from international financial institutions (World Bank, EBRD, EIB, etc.) under very favorable terms.

The initiated and accelerated public construction works have complex effects: (1) thousands of construction workers are engaged which, due to low wages, is directly spilling over into spending and affects growth in the production of consumer goods; (2) domestic production of raw materials and equipment is engaged in order to meet the needs of construction activities and the infrastructure of municipalities.

The main objective of this article is to establish the displayed positive trends of economic activity, which have been clearly inspired by the considerable influx of donors' assets. Presented trends are not fully correct (they are assumed to be much more favorable) due to relatively small statistical coverage of economic activity. The private sector has a permanent upward trend in its share in our economy, while statistical processing largely refers to the socially-owned enterprises, using methodology from twelve years ago. In order to adjust our statistics to world standards, it is necessary to support its infrastructure in a material sense – to stimulate statistics experts (because most quality experts have been leaving statistics bureaus) and to acquire modern equipment. This, among other things, requires donors' assets and foreign expertise.

The second objective of this article is to express a fear that, if the political situation in the country sharpens, it could result in the postponement of the announced new donors' conference, as well as interruption of funding of projects in Serbia by international financial organizations., which would affect a turnaround in the expressed trends. In that case, the historical opportunity for economic recovery would be missed, with the economic harm being immeasurable.

Privatization in Serbia: The Second Run

Dusan Pavlovic

1. Legal Framework for the Privatization Policy

Privatization in Serbia got its second chance. This time, the Government made it clear that it means it. It set up a ministry for privatization; invited world experts to assist in drafting the law on privatization; opted for the case-by-case approach and direct sale model; started restructuring big enterprises before selling them off; and engaged in a serious advertisement campaign to make privatization acceptable to the Serbian public.

In the new Privatization Law, the Government dropped the management-employee buyout (MEBO) model, which was introduced under the 1997 Ownership Transformation law (*Sluzbeni glasnik Republike Srbije*, no. 32/97). The solutions postulated under the 1997 Law have been justly abandoned for two reasons. Firstly, barring Slovenia, no country that has deployed MEBO was successful in implementing privatization. Countries such as Russia, Croatia, Macedonia, Romania, Uzbekistan, Armenia, Ukraine, Azerbaijan, Albania, and finally Yugoslavia until 2001, faced insurmountable obstacles in the implementation of this model. These countries were ranked very low on the list of successfully implemented privatization programs published by the European Bank for Reconstruction in 1999. This fact indicates that MEBO is inherently flawed. Secondly, applying the MEBO model in Serbia was actually an attempt to stall privatization in Serbia and allow the political elite, previously filtered by the Socialist party and JUL, to assume ownership without putting it in the right use.

The new Privatization Law, enacted on June 29, 2001 makes privatization obligatory. The state was given a greater role in ensuring the certainty of the process. The Serbian parliament adopted a set of laws and measures that regulate the privatization process.

- The privatization law (June 29, 2001; *Sluzbeni glasnik Republike Srbije* no. 38/01);
- The privatization agency law (June 29, 2001; *SG RS*, no. 38/01);
- The share fund law (June 29, 2001; *SG RS*, no. 38/01);
- The ordinance concerning tender sale of capital and assets (July 17, 2001; *SG RS*, no. 45/01);
- The ordinance concerning auction sale of capital and assets (July 17, 2001; *SG RS*, no. 45/01) (amended on August 2, 2002; *SG RS*, no. 45/02);
- The ordinance concerning the methodology for assessment of value of capital and assets (July 17, 2001; *SG RS*, no. 45/01) (amended on August 2, 2002; *SG RS*, no. 45/02);
- The rulebook concerning the content and methods for running the privatization register (August 29, 2001; *SG RS* no. 52/01);
- The rulebook concerning the content and methods for running the temporary register (August 29, 2001; *SG RS* no. 52/01);

- The rulebook concerning the level of the cost of privatization before the Agency for privatization incurred by enterprises and other legal persons (September 28, 2001; *SG RS* no. 57/01);
- The rulebook concerning the prospectus form (July 19, 2001; *SG RS* no. 44/01).

The new Law on Privatization tries from the very beginning to avoid the trap of the past. Articles 1 and 3 set forth that both collective and state-owned property must be transformed. Article 2 lays out four basic principles of privatization:

- a) creating conditions for development of the economy and social stability;
- b) transparency of the process;
- c) flexibility;
- d) letting the market form the prices of firms.

It can be seen that privatization is not a goal in itself, but that the goal is to create basic institutions of market economy. The Law is supposed to make the privatization process transparent, meaning that the public has the right to be informed in a timely fashion what firms are up for privatization, who buys them, and if the procedures for privatization are being carried out according to the law. Finally, point d) insists that firms be sold at prices formed by the markets, and not determined by the administration.

These are the major institutions for implementing the privatization policy: the ministry for privatization, the privatization agency, the share fund, and the contemporary register (which in time is supposed to turn into a regular privatization register). The agency forms commissions that run tenders and auction sales.

Article 9 postulates two models of privatization: sale of capital and transfer of capital with no compensation (Table 1). Sale can be divided into public tender and public auction, whereas assets can be transferred to workers and citizens.

1. Sale of capital	2. Transfer of capital with no compensation
Methods of sale	Methods of transfer
1) Public tender	1) Transfer of shares to employees
2) Public auction	2) Transfer of shares to citizens

Table 1: Models of privatization according to the June 29 Law.

The new privatization law, which adopts sale models, gives priority to outsiders to buy firms. The goal is not just to sell domestic firms, but to sell them to so-called strategic partners who will continue to produce, not shut the firm down as soon as they move in. Strategic partners are expected to use resources more rationally, insist on and establish profit-based orientation of the firm, thereby creating an environment for a market economy to thrive, which leads to opening of new working places. There are three key conditions for tender sales:

- a) offered price;
- b) social program;
- c) the level of new investments in the firm.

Auction sales are carried out in designated places where firms are sold by public bidding. Whereas in tender sales there are several conditions that determine who is the buyer, the sole condition that determines the outcome of the bid being the price— whoever bids the highest price takes away what is up for sale. As opposed to a tender where the Agency organizes and carries out the whole process, an auction is only organized by the Agency, whereas the carrying out is done by a commission set up by the Agency.

Although article 12 postulates that buyers can be subjects from the inside but also from the outside of the company, the very same article makes it clear that Yugoslav citizens can buy capital or assets only after submitting proofs on not having obligations that stem from the Law on one-off extra profit and extra assets of June 22, 2001 (*Sluzbeni Glasnik RS*, no. 36/01). The key motivation for this proviso is political: it was supposed to block the people who benefited from close ties with Milosevic from turning their wealth into private property by laundering their assets.

Articles 42-45 postulate that up to 30% of the assets of each firm may be transferred to workers, ex-workers (pensioners), and citizens. The worker obtains up to €200 of shares for each working year. The total of the year is 35, which makes all in all € 7,000 of shares free of charge.

The two models of privatization proscribed by the June 29 law are by no means equal in weight. The sale model dominates the transfer model. Sale is the model the government prefers, meaning that enterprises simply must be sold. It is postulated that up to 70% of the capital must be sold either by tender or at auction, whereas the remaining 30% will be transferred to employees or citizens, but only after the selling of the 70% (articles 42-54). More importantly, although the Law is not explicit on this, the Government made it clear that tenders will be deployed for big and strategic firms, whose number most likely does not exceed 200. All smaller and medium-size enterprises, whose number is estimated at about 7,000, are planned to be sold at public auction.

Tenders are of crucial importance for the privatization process, for the biggest firms, which employ the majority of the population, and will be sold on tenders. They are organized and carried out by the Agency for privatization. The procedure covers: preparation for sale, public advertising, accepting the bids, assessment of the bids, closing contracts, and other things (Art. 27). The Agency is in charge of tender and auction procedures, but article 29 says that the minister for privatization forms a commission in charge of overseeing the tender procedure. The commission has a president and four members who approve the result of the public tender. The bidder must pay a deposit in order to be eligible to bid (art 30). The Minister for Privatization sets the sum of the deposit.

2. The Reality of Privatization in Serbia After June 29, 2001

The first step in making fertile ground for privatization is to impose financial discipline and ensure competition. This practically means that all enterprises are denied bank credits on easy terms and arrears on payments, custom duties and social security. Serbian firms were accustomed to using so-called soft credits, usually doled

out by the Development fund set up by the Serbian government. Soft credits were easy to get, but it was almost easier not to return them on time, or to return them under silly conditions. This practically helped many socialist enterprises survive throughout the 90s, but this is also what did not push them into restructuring and privatization under the 1997 privatization law. In 2001, the Serbian Government abolished the institution of soft credit, which made some firms go out of business. But it retained the policy of covering the losses of large infrastructure and energy enterprises (such as electricity or railway systems). These companies still gobble up huge amounts of the Serbian budget. So far, the government did not do much to restructure big infrastructure enterprises. The Serbian electric company is, for example, overstaffed with about 67,000 people employed, which is approximately twice the number of the employed it should have. It is especially worrisome that along with the increase in the price of electricity, business losses of this company are also increasing. For instance, in 2000, the KWh of the electric energy cost \$0.85 cents, and the total loss for 2000 was \$121 million. In 2001, the price rose to \$1.41 c, whereas the loss was \$202 million. In July 2002, the price went to \$3 c per KWh, but the projected loss is \$377 million. This clearly shows that government still has no general plan as to what to do with the biggest public enterprises.

Since the major problem that any reform government faces are so-called socialist giants—which do business with losses, are incapable of paying debts, and specifically have flawed organizational structure—the government had to engage in targeted top-down programs to restructure enterprises. These big industrial enterprises with thousands of employed were in such a poor condition which called for restructuring before being put on sale. Since it is to be expected that no investor will buy a firm that calls for immediate lay offs, the government took up to do this dirty job. The privatization agency makes a decision as to whether the firm has to restructure or goes directly on tender or auction. If restructuring is necessary, the government comes up with a special program for each firm. The Agency's decision is conclusive. This is why for many firms a special preparation for selling is called for. In August 2002, 26 big enterprises was in the process of restructuring, and by the end of the year, the total of 44 are expected to be in the process.

It must be stressed that restructuring of firms has to be done sooner or later. Most of the firms have already been downsized but still look rather unattractive for the potential investors. In spring 2002, after the first round of restructuring of the Zastava factory has been done, the government could not sell Zastava even for one dollar. This means that the very same firms will need another round of restructuring, which will additionally burden the government that hardly survived the restructulization of the first round.

The Serbian government, especially the ministry for privatization, was rather sanguine about the start of privatization process. It set off into advertising privatization to foreign donors, and restructuring enterprises for sale. However, the result of the first year of privatization was far from cheerful. The government seems to have spent more energy on arranging the documentation and procedures for privatization but it did not really privatize much. The number of firms awaiting privatization (Table 2) vastly exceeded the number of firms that were privatized.

	Firms ready for	Number of	Book value on Dec.
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	privatization	employees	31, 2000 in €000
Total	285	96,522	603,787
Tenders	63	53,492	343,301
Auctions	222	43,030	260,485

Table 2: Enterprises ready to be privatized in May 2002. (Source: *Privatization in Serbia*, no. 4, May 2002, p. 5.)

The reality looks somewhat different. So far, five firms were privatized on tender, and 22 on auction sales. Table 3 shows the total of the privatized firms, whereas Tables 4 and 5 show the details on each tender and auction sale.

	Number of enterprises	Number of employees	Revenues from sales in 000 €	Required investments in 000 €
Total	27	9,589	182,410	261,807
Tender	5	7,392	170,890	260,340
Auctions	22	2,197	11,520	1,467

Table 3: Tender and auction sales: The results so far.

Name of factory	Line of business	Name of strategic partner	Final price in mil. \$	Percent of capital privatized	Obligated to invest in mil. \$	Sale closed on
Beocin	Cement production	Lafarge, France	50.9	70%	32.3	1/29/02
Kosijerac	Cement production	Titan, Greece	35.5	70%	29.6	1/30/02
Novi Popovac	Cement production	Holcim, Switzerland	52.5	70%	83.9	1/30/02
Seval, Sevojno	Aluminium processing	Impol, Slovenia	7.5	70%	14.5	8/27/02
Merima, Krusevac	Household consumables	Henkel, Germany	14.4	70%	43.1	8/28/02
TOTAL			160		203	

Table 4: The result of tender sales.

Name and site of firm	Number of employeeed	Line of bussines	Price (in 000 YuD)
Autoservis, Priboj	43	Maintenance and repairment of cars	2,352
Elgrakop Plc, Ljig	63	Colours production	14,625
Ornament, Subotica	47	Façade making	5,796
Diork, Kragujevac	363	Clothes making	13,610
Golubac, Arilje	76	Hotel management	29,019
Loznica, Loznica	9	Fruits and vegetables	190
Montaža, Beograd	521	Construction	34,864
Zlatibor, Čajetina	132	Production of milk, meat, and eggs	66,640
Neimar, Valjevo	22	Construction materials	316
Zorka-boje, Šabac	177	Chemical industry	232,530
Hladnjača, Ljubovija	51	Fruits and vegetables deep freezing	18,048
Palisad, Čajetina	164	Retail and wholesale	47,769
Kijevo, Beograd	78	Stone exploitation	55,048

Grada, Beograd	16	Trade	11,562
Metalservis, Smederevo	31	Trade	2,952
Remont, Bečej	80	Maintenance of motor vehicles	7,636
Standard, Novi Sad	92	Bags	29,024
Granit, Ljubovija	65	Stonebreaking	50,336
Milivoj Lazin, B. Arandelovo	65	Agriculture products	41,373
Metalac, Kladovo	11	Making of metal construction	6,322
Riboteks, Ljubovija	16	Fishpooling	18,681
Iverak, Valjevo	56	Metal hardware	10,368
TOTAL			691,204

Table 5: Auction sales so far

Discouraged by the slowness of the auction sales, the Serbian government on July 3, 2002 announced it would slacken off the conditions for auction sale. The changes took place in the form of two ordinances of August 1, 2002. (Ordinance concerning amendments of Ordinance concerning the sale of capital on public auction, *SG RS*, no. 45/02; Ordinance concerning amendments of the Ordinance concerning the methodology for assessment of value of capital and assets, *SG RS* no. 45/02). The major change regarded the method for assessing the value of the firm. The ordinance concerning the methodology introduces the corrected book value for assessing the value of the firm. The reason for this was that the initial prices on auction sales turned out to be too high. Take for example “Ribotex.” First time it was tried to be sold, the initial value was ½ million euros. The auction failed. When corrected book value was applied, the initial price was 200,000 €, and at the end of auction, it was sold for 491,000 €

There were some changes regarding bidding and price. The so-called English methods of bidding is abandoned, and only the Dutch bidding remained. The bidding now starts always from 80% of the estimated price, and goes only higher. The government also announced it would form a special fund with 100-150 million € from which potential buyers can borrow the money to bid on auction. All this, the government expected, would speed up the process of auction sales, that from July 21 was supposed to be taking place on a weekly basis.

3. Some Recommendations for A More Successful Privatization Policy

A) One can identify several problems with the privatization policy. The first one is related to relatively high risks encountered by foreign investors and the lack of capital in the country. Foreign investors still hesitate to make more energetic entry into the Serbian market. Financial risks are considerably reduced due to established macroeconomic stability with low inflation and clear credit and monetary policy. Certain risks refer to the lack of necessary financial institutions. The Federal Government has not done much with regard to the adoption of legislation on securities, investment funds, and accounting. Finally, political risks in terms of undefined federal state and unstable political situation in Serbia discourage foreign investors, too.

On the other hand, it is well known that sale model works best in market conditions. One reason why the Serbian government opted for sale model derives from the nature of obstacles that existed in the 90s. It is said that the 1997 law could not work because the political obstacles for privatization were in place. Now that the political obstacles are removed, privatization can get off the ground. This sounds reasonable, but the problem is that the removal of political obstacles were not enough in circumstances where there are economic obstacles. Tender and auction sale works properly only in a market economy, which implies the absence of economic obstacles. In the Serbian case, this condition does not obtain. The difficulty indeed consists in the scarcity of money that is supposed to be after the capital. Since tender and auction sales are the two dominant methods, the natural expectation would be that demand tallies with supply. Unfortunately, this is not the case.

B) A problem not yet visible in the privatization process, but very likely to emerge, is the relation between the government and the opposition, i.e. the government and trade unions. Successful privatization requires the Government to build up a kind of coalition among main social, political, financial, and international actors that have any interest in privatization. In terms of politics, a consensus on privatization concept broke up because Democratic part of Serbia started advocating the partial return to MEBO model, i.e. the solution from the 1997 privatization law. On the other hand, the relation between the Government and trade unions is also not cooperative. It is necessary to bear in mind that real effects, such as massive layoffs of workers, have not taken place yet. Consequently, the Government should try hard to reestablish political consensus among political parties, and to strengthen social consensus with trade unions if privatization speeds up in the course of 2003.

C) Privatization process seems to be overadministered by the Serbian Government, and the Privatization Agency. Article 16 of the Privatization Law says that privatization procedure can be initiated by the Agency, by the enterprise in question or by the interested investor. But the initiation is only an expression of intent, while the Agency is in charge of issuing a permit. To quicken the privatization, local governments should be allowed not only to initiate privatization, but also to kick off the process and carry it out. As an incentive for this, the Law can arrange that for each initiated privatization the portion of assets obtained by local community is increased from the present 5% to 8 or 10%.

D) Privatization needs not to be accepted by big investors only, but by small shareholders, too. This requires institutions, such as investment funds, which protect the interests of small shareholders. Small shareholders are also protected by the stock exchange market that works without manipulation. Malverzation with shares of the Apatin Brewery that took place in April 2002 does not suggest to citizens that shareholding is a profitable activity. In that sense, it is necessary to pay special attention on the functioning of existing institutions besides the establishment of the new ones.

E) Privatization is not an objective in itself. Privatization makes sense only if it increases efficiency and productivity of enterprises. The final objective of privatization is higher economic growth. According to the experience of Central and Eastern European countries which launched their privatization programs in 1990, economic growth is enhanced best through greenfield investments. Foreign investors,

however, face many problems in this field, too, due to the unnecessary convoluted administrative system that makes doing business in Serbia too costly and too irrational. Only when these obstacles are removed, privatization will not be seen as panacea for the Serbian economy, but as only one segment that contributes to its recovery.

CONSUMER PROTECTION POLICY IN THE EUROPEAN UNION

Short Overview

The Roma Treaties (1957) set out the establishment of a single market with free movement of people, goods, services and capital as one of the main objectives. In that respect, these treaties provided for appropriate instruments aimed at the realization of this objective, coupled with several joint policies (agricultural, trade and traffic policies). **The consumer protection policy was not an integral part of the Treaty.** At that time, the awareness of the significance of this issue was not present yet.

The first initiatives and first regulations in the area of consumer protection appeared in the Western world in the late 1950s and early 1960s. **Consumer protection rights sustained considerable development** as late as in the early 1970s, when Member States started adopting first regulations. Although having belonged to the joint European heritage, those countries had a diverse social and cultural tradition and different institutions, legal systems and policies. Legal regulations in the area of consumer protection were developing under the influence of these numerous diversities. Two trends were notable. One group of countries considered it necessary to regulate this area with laws and to develop appropriate administrative organizations that will be in charge of their enforcement, taking care of forthcoming changes, getting feedback and being ready to react to them appropriately, with the main objective being to provide better protection of their clients. Another group of states, however, advocated a less formal and a more pragmatic approach, giving absolute preference to the principle of self-regulation, adopting regulations on only several issues which were considered most important. Almost all of them shared the opinion that the area of food products is a very delicate issue and hence requires special care. As Member States were pursuing different policies with different priorities, but without coordinated work, consumer protection was not regulated in a uniform way at the community level.

Over the course of time, the Community's attitude changed. **The first initiatives** appeared at the beginning of the 1970s. **At the Paris Meeting in 1972**, a will for undertaking some concrete measures in this field was publicly expressed for the first time. Several years later, in 1975, the Commission adopted its first program in the form of consumer protection action plan (OG EC, no. C 92, April 25, 1975). This text contained **five basic rights** that will be under special attention due to their significance. It was considered that consumers must be protected in legal terms in the area of health and safety, their economic interests, the compensation of damages, that they must be provided with information and adequate education, as well as with rights to representation.

Consumers were thus given a possibility to self-organize and establish associations for protecting and advocating their interests. In that way consumers got rights to be represented and to institutionalize their existence in a certain way, and thus to increase possibilities for their influence on the market. The availability of information to a certain

extent increased too, and the education of consumers began. Simultaneously, the possibilities of greater guarantees of protection in the purchase of goods and services were growing,

The Commission continued to make plans and working programs. Consumers were increasingly called to speak out. Special emphasis was put on their right to information. Thus, one of the first measures that were implemented referred to the regulations on the labeling of food products and on false advertising. It was considered that a consumer had the right to know the ingredients of a product they intended to buy and to use for nutrition. Also, commercials could not be allowed to mislead consumers or to offer them false values (a slogan for the Nestle powder milk “Better than mother’s milk”). *Especially sensitive to the rights of the child and to the necessity of special protection*, standards were adopted to regulate the conditions that children’s toys must meet in order to appear on sale. Later rules referred to the regulations on over-board payments, on certain clauses in contracts, on time-sharing, etc. The efforts made in that time gradually created a new kind of law, today known as a community law on consumer protection.

A turning point in the change of the official EU position with regard to consumer protection was the adoption of the Single Act in 1987. This was the first contract that mentioned the word *Consumer* (article 100A). This was the period of intensive work on the establishment of a single market, when it was realized that consumers are very important for the market, its establishment and operation. Fragmented actions, as undertaken at the level of member states, could not lead to joint objectives, and actions had to be taken at higher levels. The Community is a subject that should take care of the internal market and play a central role on it, removing all obstacles for its work. At the same time, it must supervise the application of adopted rules in practice. The Commission was officially authorized to take care of consumer protection. Decisions in this area were predicted to be made unanimously. This was not a complete exclusion of the authority of member states. Community regulations should have been treated as additional and supplemental to national regulations to the extent necessary for the realization of the Community’s objectives.

Considering the number of consumers (about 240 million at that time) and their daily presence on the market, it was correctly estimated that they knew best what was happening on that market. They should have advised competent authorities on the problems they were facing; their objections and remarks should be taken into consideration for creating best solutions. Consumers’ participation in the creation of internal markets should have been increased.

The 1992 Maastricht Treaty established a common policy in this area, while article 129A set out a legal framework for its further development. It was confirmed that the Union should “give its contribution to the strengthening of consumer protection”. This opened new prospects and was followed by the adoption of several Green papers. Green Papers are intended to inspire debates and conferences on particular issues at the level of the Union as a whole. These works should show whether these topics deserve to be given more attention and whether they require particular measures to be undertaken. The Commission adopted several documents of this type (e.g. on financial services, on food products, on guarantees, on consumer protection rights before competent authorities, etc.).

The consumer protection policy, which has existed since 1992, entails that the Union establishes the main requirements in the area of health and safety, i.e. economic interests of consumers that must be protected to a very high extent and for which the Union is accountable before consumers. All products and services present on the market must be safe; consumers must be informed on these products so as to be able to choose those which respond best to their needs. In theory, the Union takes great care of its consumers, by pursuing control over products and goods present on its market. **All products must pass through two kinds of very strict controls before appearing on internal markets – internal and community control.** The difference between them is almost wiped out today since all products must pass both controls. An exception to this rule refers to smaller-scale production, when the amount of final products is small and therefore such products can be traded only on the local level. Owing to the requirements that must be fulfilled – requirements related to packaging, labeling, and safety of products in general – consumers today have no reason to worry. Once the product appears on the market with the label “Conformed to EU standards”, it is undoubtedly safe to use. We can see different examples in practice, though. In that sense, a big scandal has shaken Italy recently, when it was necessary to check whether the labels on food products contain necessary information and whether consumers were provided with information on genetically modified organisms in them, which must be done according to EU regulations. The results of the research were discouraging, as it turned out that only 10% of products contain true data on contents on their labels. It is therefore understandable why **the Member States’ governments are still authorized to prohibit trade in any products they estimate as dangerous**, despite all labels on it. In that case, the Commission must be advised of the undertaken measure. If they turn out to be justified, the Commission will inform all other member states, which will possibly entail the handing over of the violator to the EU Court of Justice.

Over the period 1996 – 1998, the Commission gave priority to the regulation of financial services due to the great importance of this area, while food products, as another very important area, is still in focus. This was especially the case when **internal markets were disrupted due to the mad cow disease**. The crisis shook the whole of European society. The issue was largely discussed under health protection and under what measures should be undertaken so as to assure the final consumer of a product in its safety and quality. It was necessary to regain and then to strengthen the confidence of consumers, as confidence is a necessary element in a successful market. There was even a suggestion to change the composition of the Commission and the way it operates, and to offer better guarantees for safety in the area of nutrition. Several plans and analyses were made, and on that basis the Commission reorganized its departments (General Directive no. 24 which deals with consumer protection was reorganized). Necessary attention was paid to the education of consumers in order to increase their participation and clearer initiative. Simultaneously, special actions were taken to assist Eastern European countries and developing countries which have just started working on the adoption of their own regulations in this area.

The Amsterdam Treaty (1997) gave new impetus to consumer protection. It was clearly stressed that health protection, safety and the economic interests of consumers, their right to information, education and organization in order to protect their interests are the main objectives which the Union must take care (art.153 according to new

numeration). Furthermore, it is asserted that consumer interests should be taken into account with regard to other areas, as well, since today more than ever all areas of societal life are mutually connected and intertwined. Consumer protection cannot be analyzed without regard for environmental protection, development, transport services, financial services, competition, agriculture, foreign trade, etc. because this would give an incomplete picture, which does not correspond to reality and actual needs. External factors also have significant impact on consumer behavior. Systematic inclusion of the interests of consumers in all other areas of the Union's activities is essential.

The changes which occurred in recent few years affected the area of consumers protection. The beginning of monetary union and the introduction of the Euro as a single currency introduced a new dimension on the single market. A significant psychological barrier, which used to prevent large purchases in other member states, disappeared, while the comparison of prices became considerably easier. Social, economic and technological changes came about in various sectors. A key factor in these changes is also the increasing usage of the Internet, i.e. services offered through this medium. Consumers' habits are changing, while the sector of services is experiencing new expansion. Consumers expect a lot from the Union, but at the same time, feel increasingly drafted apart from it. It is necessary to undertake new measures in order to continue ensuring high level of protection.

A new document adopted by the EU Commission in the course of last year and this year deals with the analysis of these problems and **offers possible solutions.**

The Green Paper on Consumer Protection in the EU (October 2, 2001) aims at analyzing possible orientations of consumer protection according to the results and conclusions that come out of debates of interested parties. In this way, obstacles for further development will be considered from all aspects and by all participants. Possible solutions will be offered, too, which should be adopted so as to harmonize regulations in this area; this is necessary for proper functioning of the market. In order to attain desired results, both member states and the Commission must invest considerable effort on behalf of the Union. The Green Paper proposes improvement in cooperation of public services in charge of the implementation of regulations on consumer protection.

The main problem that must be resolved in order to ensure consumer protection on the internal market refers to overcoming differences that exist in national legislations of member states, which concern trade practices of enterprises toward consumers. According to the current state of affairs, none of them at present can benefit from potential possibilities offered by internal markets, not to mention new possibilities that are opened by the introduction of the Euro on January 1, 2002 or from e-business.

The Green Paper fulfilled its role as a document aimed at providing food for thought and at initiating consultations at the Union level on particular issues. On May 7, 2002 (COM (2002) 208 final) **the Commission submitted its proposal** to the Parliament, the Council, the Economic and Social Committee and the Committee of the Region on the **strategy of consumer protection for the period 2002 – 2006.**

The definition of “consumer protection policy” is somewhat changed and includes the safety of consumers, as well as economic and legal aspects related to markets, information and education of consumers, the promotion of organizations that deal with consumer protection and their contributions, together with other participants in the creation of consumer protection policy. **The issue of food products safety is not an**

integral part of this strategy. Considering its significance, this issue will be subject to special regulations (more information on safety of food products – the White Paper of January 12, 2000, which also contains the program for legal reforms in this area, document no. COM (1999) 719 final).

The consumer protection policy in the EU is at critical point today. In the coming years consumers will have to feel benefits from internal markets and from the implementation of a single currency. They will have to see concrete results from the inclusion of their interests in all other community policies. New consumers as well, those that will appear on a single market after the enlargement of the Union, projected for 2004, should be able to make use of these privileges. Consumers expect from the Union that it takes care of them. The Commission adopted a strategy for the period of the next five years. The answer of other competent institutions is now being awaited.

In Lieu of a Conclusion

Although the area of consumer protection is very important, in our country little has been done in that respect. The isolation of the country and the events that happened on this territory can not be used as excuses for such a situation any more, even more so because of the trend of the opening of the market, whereby one of the major objectives of the country is accession to the EU. It is true that our market does not have strong enough competition, while the quality of goods and services is disputable. In what way they are going to respond to the challenge of the entry of foreign goods that have already appeared, and are yet to appear, is a big question. A special topic for consideration is how to sell our goods to foreign markets.

At the same time, the state should strengthen control of products in order to protect final consumers and in order to avoid becoming a place for trading products that cannot be sold on the EU market.

It is certain that a well-organized institution of consumers would be very beneficial.

Serbia does not have an organization for consumer protection.

Federal Parliament adopted the Law on Consumer Protection (FRY Official Gazette, no. 37, July 3, 2002).

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Macroeconomic Review

INCREASE IN PRODUCTION AND EXPORTS UNDER CONDITIONS OF MACROECONOMIC STABILITY

The inflation rate in August was up by 0.4% month-on-month. The achieved consumer price indices by consumption groups show that the increase in the price of electricity in July had a mild short-term impact on trends in other prices. This confirms that the Serbian economy became market oriented in practical terms and largely accepted the rules of market behavior. Production and exports recorded growth in July. The purchasing power of employees and pensioners in Serbia is permanently increasing, being considerably higher in 2002 compared to the previous year. The characteristics of the formal labor market in Serbia are the following: (1) the total number of employees is steady; (2) considerable decrease of employment in the socially-owned sector; (3) a significant increase of employment in the private sector; (4) the unemployment rate is kept at the last month's level, with a mild year-to-year increase. Relatively favorable structural trends on the labor market and funds provided for social programs largely neutralize the downside effects of restructuring in the real sector. As far as the monetary area is concerned, foreign currency reserves continue to grow, while the fiscal area is characterized by stable inflow of public revenues.

Prices

Retail prices in Serbia in August were up by 0.4% month-on-month. With regard to groups of products, industrial products displayed a growth in prices by 0.2% in August due to the increase in the prices of beverages and industrial food products. The impact of seasonal factors and the ratio of supply to demand for agricultural products brought about deflation in the prices of agricultural products in August. This group of products registered a drop in prices by 3.6%. The prices of goods in August remained unchanged, while the prices of services were up by 1.6%.

According to forecasts by the G 17 Institute (Economic Review, issue 30, June 2002), projected year-end inflation is about 12% (measured by the ratio of index of prices in December 2002 to the index registered in the same month of the

previous year). The projected inflation includes July's correction in the price of electricity. Compared with December 2001, inflation in August was 9%. The ratio of the average price rise in August 2002 to the August 2001 is 16.4%. If prices sustain the present level of increase up to the end of the year, the previously estimated inflation rate is not likely to be exceeded.

Excluding negative growth rate in consumer prices registered in January, the 0.1% increase in August is the lowest growth rate in this indicator of standards of living measured from the beginning of this year.

In August, the price of goods comprising the CPI was down by 0.3% on average, while prices of services rose by 3%. The prices of nutrition, clothes and footwear and hygiene and health care also decreased, which contributed to the low value of the consumer price index. More significant increase in prices was registered in the group of education, culture and leisure (4.2%) and traffic vehicles and services (1.1%). Housing costs in August were up by 0.8% month-on-month.

CHART

Annual Inflation in Serbia

Wages and Pensions

The average nominal net wage in July 2002 was YuD 9,342, displaying a growth of 3.9% compared to the previous month. Since consumer prices in July were up by 4.3% month-to-month, the average net wage was down by 0.4% in real terms. However, real growth of the average wage registered in July 2002 year-on-year was 28.9%, or 2.9% relative to December 2001.

The value of the statistical consumer basket for a four-member family in July 2002 dropped by 4.5% relative to June. The ratio of the consumer basket to the nominal net wage decreased from 1.3 in the period March - June to 1.2 in July. With regard to the same month of the previous year, the ratio of the consumer basket to the nominal net wage decreased by 32%, i.e. it took almost two wages to cover one consumer basket in July 2001, while in July 2002 this ratio was reduced to 1.2, indicating considerable improvement in purchasing power of the employed.

A pension paid out by the Old Age Pension and Disability Insurance Fund of the Employed in August averaged YuD 6,390, which is nominally at the level of the average pension paid out in the previous month, while in real terms it was down by 0.4%. However, the average pension paid out in August 2002 recorded an increase by 31.1% year-to-year, or by 3.0% relative to December 2001.

The ratio of the average pension to the average net wage in June 2002 was 68.9%, while the proportion of the average pension to the average gross wage was 47.8%. It might be safely concluded that, by the application of new methodology of adjustment of pension trends and the enforcement of the new Law, this ratio was reduced to acceptable measures, taking into account the experience of developed European countries.

Labor Market

According to the available data, the total number of employees remained at approximately the same level. Employment in the socially-owned sector continued to drop. In July 2002 this sector employed 1,450,228 persons, which is down by 6.5% year-to-year, or by 4.9% relative to December 2001. However, according to the assessment made by the Republican Bureau for Information and Statistics in July 2002, employment in the private sector was up by 11% year-on-year, while in small-sized enterprises it increased by 5.6% over the same period. The unemployment rate in Serbia in July was 27.95%, which is almost unchanged compared to the previous month, while it increased by 0.92 percentage points with regard to July 2001, or by 0.67 percentage points relative to December 2001.

The number of unemployment benefits recipients rose by 26.7% in the period January – June 2002 compared to the same period of the previous year. According to the latest data from June 2002, the total number of unemployment benefits recipients is 69,716 persons, which is up by 23.14% year-on-year. The number of unemployment benefits recipients on the basis of lay-offs increased by 24.55%, reaching 37,331 persons in June 2002, while the number of recipients on the basis of bankruptcy was 22,348 persons, displaying a growth of 48.8%. The number of unemployment benefits recipients on the basis of lay-offs and bankruptcies in June 2002 increased by 3.9% month-to-month.

CHART

Employment in Serbia without Kosovo and Metohija

- *socially-owned sector*
- *private sector*
- *small-sized enterprises*

Production and Services

Industrial production in Serbia in July was up by 6.2% year-to-year. The highest growth was registered in the sector of manufacturing (10%), while the sector of mining and quarrying was in stagnation (0.7% growth); the sector of energy, gas and water supply dropped by 7.2%.

Within the manufacturing sector, the highest growth was registered in the manufacture of coke and refined petroleum products (it rose more than twice), as well as in the manufacture of electrical machines and appliances, the manufacture of basic metals, the manufacture of food and beverages, and the manufacture of other transportation equipment. The growth in the manufacture of coke and petroleum mainly resulted from the increased production in Vojvodina (by 150%); as regards Central Serbia, production in this industry fell compared to 2001. On the other hand, growth in the manufacture of electrical machinery and appliances and the manufacture of basic metals resulted from the increased production in Central Serbia, while in Vojvodina it displayed a drop.

In the sector of manufacturing, a year-to-year drop was registered in the manufacture of wood and cork products, the manufacture of radio, TV and communications equipment, the manufacture of leather and leather products,

footwear and the manufacture of clothing and fur apparel. In the first seven months of this year, the manufacture of clothing and footwear considerably decreased compared to the same period the previous year, which is the main reason for the drop in exports of these products over the period under consideration.

With regard to the structure of production by destination of consumption, the highest year-to-year growth in the first seven months of this year was achieved in the production of capital goods (8.1%), while intermediate goods registered only a mild growth (by 1.2%); as far as the production of consumer goods is concerned, it dropped by 2.1%.

Retail trade turnover in the socially-owned sector in July rose by 4.0% month-on-month in current prices, while in terms of constant prices, it remained unchanged. Wholesale turnover increased by 8% both in current and constant prices.

CHART

Retail Trade Turnover In The Socially-Owned Sector (in constant prices, January 2001 = 100)

- in YuD million

Foreign Trade

According to preliminary data, foreign trade in Serbia in July 2002 was valued at US\$ 198 million, which is up by 37% in nominal terms year-to-year. Commodity imports were valued at US\$ 437 million, which is up by 41% compared to July 2001. Both exports and imports in the first seven months of this year recorded year-to-year growth by 16% and 18% respectively.

Equipment imported from the beginning of this year is valued at US\$ 578 million, and thus the share of these imports increased up to one-fifth, while the import of machinery specialized for particular industries and general industrial machinery registered considerable growth (nominal growth of over US\$ 90 million or 60% in percentage terms). Furthermore, imports in almost all divisions of the sectors of machinery and transport equipment (according to the Standard International Trade Classification), increased compared to the previous year (besides the aforementioned ones, this referred to the following divisions: electrical machinery, apparatus and appliances, telecommunications apparatus and equipment and office machines and automatic data processing machines). This implies significant investments into production capacities in Serbia and activities on modernization of the existing and opening of the new production lines. This is by all means an encouraging trend and a basis for expectations of increases in industrial production in the near future. Investments in capital goods are certainly necessary, but they are not the only prerequisite for attaining this objective; production programs must be adjusted to the requirements of domestic and exporting markets, and management in enterprises needs to be improved.

As far as the export of equipment is concerned, it is in stagnation with regard to the previous year; consequently, its share in total commodity exports is slightly reduced. The same applies for the sector of machinery and transport equipment,

although all divisions but one in this group recorded increase in export value compared to the previous year. Such a trend resulted from the transport equipment division which recorded a 60% year-to-year decrease in exports value, i.e. a drop of US\$ 22 million in absolute terms. In other divisions of this sector, the highest increase in absolute terms was achieved in the export of machinery specialized for particular industries, while in percentage terms, the most successful was the division of office machines and automatic data processing machines, and telecommunications apparatus and equipment; the export value in these divisions, which has been recorded during this year is several times higher than in the same period of the previous year (despite still being modest in absolute terms).

CHART

Export Of Machinery And Transport Equipment

- in US\$ million
- power generating machinery and equipment
- machinery specialized for particular industries
- metal working machinery
- general industrial machinery
- office machines and automatic data processing machines
- telecommunication apparatus and equipment
- electrical machinery, apparatus and appliances
- road vehicles
- other transport equipment

Monetary and Fiscal Policy

Money supply at the end of August was YuD 7.9 billion, which is an 8.1% increase month-on-month. The process of remonetization continued; it was based on real parameters, which provided for maintenance of macroeconomic stability. Retail prices in August rose by as little as 0.4% compared to the previous month, which was the lowest level registered in the last five years.

Real money supply at the end of July was EUR 1.59 billion, while at the end of August it was EUR 1.7 billion.

Cash money supply rose by about YuD 2.3 billion (6.7%), reaching YuD 37.4 billion at the end of August. Slower increase in cash money supply compared to the total money supply affected the reduction of its share in M1 from 36.2% to 35.7%.

Due to great increase in the value of foreign currency reserves in August (12.5%), the coverage of money supply with foreign currency reserves increased from 118.5% at the end of July to 123.9% at the end of August.

According to the data provided by the Payment and Settlement Bureau, gross public revenues collection in July rose by 59.1% in nominal terms and by 34.2% in real terms year-to-year.

The revenues of social insurance organizations recorded higher growth rates, both in the period January – July 2002 relative to the same period of the previous year, and in July 2002 year-on-year. This increased the share of the revenues of these organizations in the period January – July from 35.4% to 37.2%.

Despite faster growth in the revenues of social insurance organizations than in budget revenues, owing to much faster increase in social expenditures, transfers from the budget to social funds are inevitable.

[illegible][illegible]

Contributions for pension and soc. Insurance										
Budget subsidies										
Health ins. revenues										
Budget subsidies										
Unemployment ins. revenues										
Budget subsidies										
Total Subsidies										

Structure of public revenues (%)	I-VI 2001	I-VII 2001	I-VI 2002	I-VII 2002	VII 01	VII 02
Revenues of the budget and other users	64.3	64.6	62.3	62.8	65.9	65.2
Sales tax	27.6	28.4	30.2	30.5	31.9	32.3
Income tax	11.7	12.2	14.6	14.5	14.3	14.0
Property tax	2.0	1.9	1.9	1.9	1.6	1.7
Other taxes	1.5	2.0	3.5	3.4	4.1	2.5
Fees	7.2	6.5	2.0	2.0	3.7	2.3
Customs	4.3	4.5	4.5	4.6	5.2	4.9
Other revenues for budget and other users	9.9	9.0	5.5	5.8	5.0	7.5
Spec. rev. of. Fed. Budg. And Rep. Budgets	0.0	0.0	0.0	0.0	0.0	0.0
Soc. Insurance Org. Revenues	35.7	35.4	37.7	37.2	34.1	34.8

Editor
Division of Competence in the EU
Economic News

Tanja Miscevic, M.A.
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Institutional Balance In the EU

An important question in the forthcoming reform of the European Union is certainly the question of a precisely set institutional balance between the Union and its Member States. Namely, the current sharing of power as laid down in the Founding Treaties distinguishes three groups of power: exclusive power of the Union, exclusive power of Member States, and the areas in which the EU and Member States have common power. Furthermore, this system is marked by a complex network of objectives, fundamental power and functional power, primarily owing to four revisions of these treaties that have been carried out so far. Such a situation results from the fifty-year existence of the EU and from the fact that the institutions designed for the Community of Six with primarily economic objectives must be adjusted to a significant increase in membership today, and at the same time to growing political activity of the Union in a modern society. Alongside these practical conditions of adjustment of the EU to internal conditions, a very important role in urging the resolution of issue of institutional balance rests with the citizens of the EU and their increasingly active attitude observed in various Eurobarometer polls and public debates. Namely, these polls show a large gap between the expectations of European citizens and what the Union is actually doing.

For these reasons there are plenty of proposals and calls for modernization and precise sharing of power between the Union and its Member States; a recent proposal came from the European Parliament, a Union's institution composed of the representatives of the Union's citizens, not the representatives of Member States. Namely, in July 2002 the Parliament, i.e. its Commission for Constitutional Issues, released a report on sharing of power between the EU and its Member States, which contains very precise proposals for new organization of institutional balance in the Union.

In this report the European Parliament emphasizes that modernization and specification in the sharing of power must be based on the principles of subsidiarity and of proportion (two principles which were introduced by the Maastricht Treaty and specified in the Amsterdam Treaty, but are still not completed), with the main idea that better institutional balance would lead to clearer determination of political responsibility and in this way would

strengthen democracy in Europe. In the Parliament's view, this is only a repeated call for adopting the Constitution of the Union, which would reform different treaties and arrange them into a common text that would refer to a common political union with general capacity of legal entity.

Institutional balance as was established in the Treaties is based on two principles: powers in the areas of various policies (customs, agriculture, transport, etc.) and powers based on objectives (above all, powers related to the completion of the internal market). To make the situation more complex, some of these objectives are not assigned directly to the Union, but to Member States (e.g. article 119 which refers to equal wages for male and female employees). In other cases previous activity of the Community is a prerequisite that enables Member States to undertake final measures. Such a situation is not only complicated, but leads towards wider inflexibility, while one way of overcoming this problem is to enable the widest possible application of general clauses, which extend the scope of the Community's activities: this is the present article 308 of the EC Founding Treaty, which used to be the basis for more than 700 acts of community legislation. In the Parliament's opinion, it is therefore necessary to clarify this situation by amending the Treaty to suit the experiences of modern constitutions, not of diplomatic instruments.

On the other hand, the European Parliament points out that special attention must be paid to three groups of new participants – i.e. regions with legislative power, which exist today in the majority Member States; Candidate Countries whose expectations considerably differ from what is expected by present Member States; and public opinion, since public debate showed that “...the Europe which was created and which operates in Brussels, Strasbourg and Luxemburg is not the Europe which people desire.” To attain this objective, the European Parliament proposes a way of carrying out a precise sharing of power, primarily insisting on the fact that a policy model of the Union must keep its original directions in two areas: the administration of the Union's policies must be subject to the Member States' administration, while the main financial power (budget and taxes) must remain in the Member States. These two points are very important, and moreover, they are the main difference in comparison with the current federal systems in which the exercise of power is guaranteed by the Constitution and is followed by the appropriate financial prerogatives.

In the majority of cases today the Union must be satisfied with legislative power and with the setting the rules, while on the other hand, it is in charge of coordinating the measures which are undertaken by Member States. Member States, however, keep the monopoly on the actual pursuing of

public policies and relations with citizens. Thus, the very question of legislative power is one that is not precisely defined, although three Communities were founded fifty years ago. The Parliament proposes three ways for resolving this problem. Firstly, to accept that there are two separate institutions with equal legislative power – the Parliament (the representative of citizens) and the Council (the representative of states). Secondly, the return to the original philosophy which is the basis for community legal systems according to which political authorities create legal principles (law), while practical issues are assigned to executive authorities – that is why the Parliament proposes a distinction between legislative acts (which are adopted by the Parliament and the Council on the basis of co-decision-making procedures) and administrative acts (adopted by the Commission). The third way of resolving the problem of division of legislative power refers to the establishment of a general rule that the enforcement of adopted principles (i.e. executive authority) is an issue assigned to Member States or their regional or local institutions, but can be delegated to the Commission or to specialized agencies.

The European Parliament was clear and in its report offered suggestions for more precise sharing of power between the Union and Member States. The areas assigned exclusively to the EU, in which Member States cannot exercise any influence except when they are explicitly invited to do so by the Union, and which have already been organized thus today, are monetary policy, customs policy, external economic relations (which is partially limited in the area of commodity trade by the Nice Treaty), competition policy, the policies of structure and cohesion, and the policy of the Euro. More significant, however, is that the Parliament suggested some policies which should be treated also as exclusive powers of the Union. This refers to the financing of the Union's budget, legal foundations in the area of freedom and security (as a logical consequence of an internal market), and, as especially interesting, to foreign affairs. In fact, the Parliament asked the question both of itself and of the Union as a whole, whether "... foreign policy, like monetary and trade policies, should become exclusively assigned to the Union in the future?"; this idea has very strong public support. On the other hand, the Parliament has not come out with similar suggestions with regard to agriculture and fisheries, although they have an important place in the development of the process of European integration, and still have a significant share in the Community's budget.

As far as common powers of the Union and its Member States are concerned, the Parliament establishes two types of such powers. The first category of powers creates policies which supplement the single market

(protection of consumers, agriculture, fishery, transport, trans-European networks, environment protection, research and technological development, energy, social policy and employment, immigration policy, gender equality, developmental cooperation and taxes linked to the single market). The second category of common powers refers to the implementation of foreign policy and internal and external defense and security policies. To make these common powers more precise, the European Parliament proposes several main principles on which they should be based. Namely, the Community's legislation should set out guidelines, principles and objectives of these policies, while transplantation and practical implementation in internal legal systems is on the side of Member States – the principles of subsidiarity and proportion assume full significance in this. National governments can adopt laws in the absence of European regulations, but if a common regulation exists, it takes priority over national legal systems. With regard to special common powers in which the Union has a subsidiary role only, while the main initiative is on the side of Member States' governments (education, training, the youth, sport, tourism), the scope of the Community's measures must be established in each individual case without going into details.

The basic proposal offered by the European Parliament for the sake of clearer division of power in relation to the power assigned to Member States is very simple – it must be laid down clearly that, with regard to issues not specified by the Founding Treaties, they remain the sovereign power of a Member State as its sovereign right. However, besides this basic principle, it is suggested that some issues that by their nature belong to national jurisdictions must be precisely established, e.g. fiscal policy and territorial organization of the state.

Considered thus, the European Parliament's proposal of precise sharing of power in the Union leads clearly towards the idea that modernization in sharing of power inevitably concerns essential issues not only related to the role of the Union, but also its nature and especially its relation to Member States. Closely related is the question of whether the Union is ready to shift from the sharing of power, which is, as was expressed in the Parliament, "...created by diplomats for their own needs", to constitutional sharing of power. If the answer is negative, there is no need for further elaboration of similar proposals. However, if the answer is positive, this will open a new chapter in the history of the Community that will require a completely different legal and political architecture – which is the price that must be paid for the political union of an enlarged Europe.

Economic Newsⁱ

As the accession of candidate countries to the European Union is approaching, the issues opened with the initiation of this process require rapid resolution. One such issue refers to the relation of candidate countries towards third countries.

Countries hoping to join the European Union risk being caught in the diplomatic crossfire that threatens to develop into a new transatlantic trade row between the USA and the EU.

The disputes with the EU over steel and agricultural subsidies (which are still underway), made the USA sensitive to all signals coming from the EU, treating them as a kind of threat or punishment. The USA has stepped up its battle in preventing the EU from forcing candidate countries to ditch or substantially alter current bilateral agreements with the USA.

US trade officials say that the so-called “bilateral investment treaties” (BITs), concluded with candidate countries, are vital for American business investments in CEE countries and that moves aimed at annulling them will be counter productive.

On the other hand, applicant countries have received clear signals from Brussels that such accords are incompatible with membership in the Union and current EU – USA trade agreements. Also, the Commission has confirmed that it will argue at talks in September that the bilateral treaties must be watered down soon.

Third party, i.e. candidate countries, which have found themselves caught in the middle, realize that the problem is not only legal, but political, as well, and fear the impact which the whole debate and its outcome will have on trade relations with the USA as one of the biggest trade partners of these countries. Therefore, they will try to take a mediating role in convincing the Commission to let them keep a part, if not all, of their US accords in force. On the other hand, if they are forced to make concessions because of obligations undertaken towards the EU, these countries will try to get confirmation from the US that “they are not offended and that they accept the situation”.

American businessmen and investors, as those who would be affected most by eventual abrogation of these accords, also took action. They contacted their trade representatives in the country and in Brussels, urging them to act on the looming threat to trade. For American businessmen, the existing deals protect their corporate interests and prevent errant governments from expropriating their assets. These agreements send an important message to investors, and their abrogation would affect insecure protection of US

investors' rights, which would further affect their future investment decisions.

Brussels officials, however, insist that full EU membership would be in the interest of companies investing in candidate countries. Moreover, there is no evidence that the lack of BITs will stop US companies investing in the fifteen current member states. Substantial changes to the bilateral treaties are necessary because of clear conflicts with EU legislation, i.e. *acquis communautaire*. If BITs were allowed to stay in force, this would enable American investors to circumvent present strict legislation in many areas and gain access to the EU single market through the back door.

Slovenia, a small and relatively well developed country, quite efficiently organized and with stable political support for the enlargement process, and one of the most successful candidate countries for EU membership, faces its own problems related to this process.

According to Janez Potocnik, Slovenian Minister for Relations with the EU, these problems are currently related to winning public support for the process of accession to the EU, because there are always certain questions and problems which have not been completely defined; it is sometimes difficult for the public to fully support this process. Most often the problem is that some politicians are adept at presenting their own political and economic interests as national economic interests. As a consequence, the public sometimes feels that in the process of negotiations, the government all-too-often succumbs to the pressures of the Union and unconditionally accepts its demands. In addition, this is accompanied by the question as to why Slovenia, which not long ago voluntarily left a common federal state, would want to join a new group of countries which, although different from the former, still amounts to a close union.

The answer to both questions, in Minister Potocnik's opinion, is the desire of the Slovenian Government for progress and prosperity for the Slovenian population.

As Minister Potocnik explained, seven years ago Slovenia adopted the Strategy of Economic Development, a strategic document resulting from a consensus in expert and political circles which defined key global measures needed to help Slovenia build a democratic, market oriented economy and a private-property-based country. The main goals set fourth by this document were: faster economic growth aimed at catching up with the developed EU countries; economic competitiveness; European integration and sustainable economic development, taking into full account environmental, social and cultural development.

Since it was one of the strategically defined national goals, a decision was made on starting negotiations and launching preparations for membership in the EU. Thus the strategic document was transformed into operational goals in the national program for the adoption of the *acquis*.

As Minister Potocnik emphasized, accession to the EU thus significantly speeded up the fulfillment of their own goals. He immediately raised the question of what Slovenia can expect from future membership, i.e. to what extent EU membership is in the interest of Slovenia.

The enforcement of common European rules and regulations will contribute to increased transparency, stability and predictability of the operating environment in Slovenian economic subjects. Slovenia will become a part of the area which is well on the way to being an area of stability and prosperity. Slovenia is convinced that with its knowledge, active role and constructive and efficient participation it can contribute to and enrich the future development of the Union. Both member states and candidate countries are aware of the high political accountability of the process and have been intensely engaged in realizing the tasks set forth. Slovenia is taking the final and crucial steps on the path toward membership. Although most of the discussions at this stage of negotiations are about the costs of the accession process, not only in Slovenia but in other candidate countries as well, for everything advanced so far Slovenia is well aware of the benefits of membership, and it is therefore irrelevant whether or not it will be richer by 1 or 2% in the final analysis. But on the other hand, because of that awareness, Slovenia must not and cannot accept solutions which would not guarantee fair, equal and just membership for all candidates. This is so, Minister Potocnik concluded, because of the values which constitute the essence of the European Union which Slovenia is entering and because of the Union that Slovenia wants to build together in the future.

Regional unemployment rates in the EU and the CEE candidate countries varied widely in 2001. The unemployment rate (measured by the share of unemployed in the total economically active population) in the EU ranged from 1.2% in the region of Utrecht in the Netherlands to 33.3% in that of Reunion in France. The disparities were of the same order of magnitude in candidate countries: from 2.0% in the region of Kozep-Magyarország in Hungary, to 32.8% in that of Severozapaden in Bulgaria. Regional unemployment rates fell between April 2000 and April 2001 in more than 80% of the 209 regions in the EU, as well as in half of the 53 regions in candidate countries.

The data on regional unemployment was compiled on the basis of the Community Labor Force Survey, and is comparable between the regions of the EU and the candidate countries.

Of the 209 regions in the EU accounted for in April 2001, 53 (nearly one third of which were in the United Kingdom) had an unemployment rate of 3.8% or less, i.e. half the average for the EU. Only Greece, Spain and France had no region with a rate equal to or less than half the EU average, including Denmark, which comprises a single unit. At the other extreme, 16 regions had a rate of 15.2% or higher, i.e. double that of the EU: five of them were in Italy, four in France, three in Germany and Spain and one in Greece.

Of 53 regions in CEE countries, only one region in the Czech Republic and two regions in Hungary had rates lower than half the EU average. In 16 regions, the unemployment rate was equal to or lower than that of the EU (7.6% in 2001), out of which six regions were in Romania, two in Hungary, four in the Czech Republic and one in Slovenia. In 22 regions, the unemployment rate was more than double that of the EU, out of which thirteen were in Poland, five in Bulgaria, three in the Slovak Republic and one in Lithuania.

A comparison of unemployment rates in the regions shows similar levels of unemployment for both men and women in the candidate countries, whereas in the EU, unemployment among women is frequently higher than that of men. Female unemployment was higher than male unemployment in 2001 in more than 75% of the regions of the EU and in 55% of the regions of the candidate countries.

Regional differences in the unemployment rate for young people under age 25 are more marked than those for the economically active population as a whole. In the EU in 2001 unemployment rates for young people ranged from 2.1% in the region of Utrecht in the Netherlands, to as much as 59.9% in the region of Campania in Italy. In the candidate countries, the rates varied from 3.0% in the region Kozep-Magyarország in Hungary, to an alarming 75.5% in the region Severozapaden in Bulgaria.

ⁱ Source: "Midday Express", http://europa.eu.int/comm/press_room/index_en.htm; and "European Voice", Volume 8 Number 30, August 1, 2002, The Economist Group, Brussels, Belgium

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FRY: Basic Economic Indicators

	$\frac{\theta 2001}{\theta 2000}$	VII 2002	$\frac{VII 2002}{VI 2002}$	$\frac{VII 2002}{VII 2001}$	$\frac{I-VII 2002}{I-VII 2001}$
GDP growth rate*	5.5%	...	...	...	...
Industrial Production	0.0%	...	-2.0%	7.3%	-0.2%
Montenegro	-0.7%	...	10.5%	24.5%	-6.4%
Serbia	0.1%	...	-2.8%	6.2%	0.2%
Central Serbia	-4.0%	...	-1.2%	5.6%	0.1%
Vojvodina	9.2%	...	-6.2%	7.5%	0.3%
Average nominal net wage - Serbia in YuD.	125%**	9,342	3.9%	49.0%	10.48%***
Nominal gross wage - Serbia, in YuD¹	...	13,461	3.9%	49.5%	10.85%***
Real growth in average net wage - Serbia in %²	16.6%**	...	-0.4%	28.9%	2.87%***
Ratio of consumer basket to average net wage	...	1.2	-8.0%	-32.0%	...
Unemployment rate - Serbia registered³	4.4%	28.0%	0.2%	3.4%	4.6%
Current account, in USD million	-87.1%	...	...	...	...
Trade balance, in USD million	-58.5%	-274	-2.2%	-41.2%	-2.9%
Export, in USD million	10.5%	206	32.1%	30.3%	12.9%
Montenegro	10.3%	7	133.3%	-48.7%	-10.6%
Serbia	10.4%	198	29.4%	36.7%	15.5%
Import, in USD million	30.3%	480	13.2%	36.4%	12.3%
Montenegro	49.3%	42	40.0%	16.8%	-24.5%
Serbia	27.9%	437	18.7%	40.8%	18.4%
Money supply (M₁), in YuD bn (end of period)⁴	109.8%	104.68	8.1%	...	...
Cash	103.4%	37.37	6.7%	...	...
Deposit	113.7%	67.31	8.9%	...	...
Real money supply, DEM mil. (end of period)	94.1%	...	...	...	...
NBY hard curr. reserves, USD mil. (end of period)	123.0%	2098	13.3%	132.7%	135.8%
Discount rate - monthly level A58	-26.65%	0.75%	0.0%	-68.0%	...
Market interest rate - monthly level	-18.40%	1.68%	1.8%	-50.1%	...
Retail prices - Serbia⁴	91.8%	...	0.4%	16.4%	21.9%
Consumer prices - Serbia⁴	93.3%	...	0.1%	13.0%	19.3%
Producer prices - Serbia	87.8%	...	5.9%	9.1%	...
Average exchange rate (YuD/EUR) - average	16.5%	60.78	0.3%	2.2%	2.0%

*Preliminary figures.

** According to the previous methodology.

***The figures refer to growth in wages in July 2002 relative to December 2001.

¹By the gross wage methodology applied as of June 1, 2001.

²Deflator is cost-of-living index.

³The figures include the employed in socially-owned sector, private sector and SMEs.

⁴The figures refer to August